BANK OF CANADA
BANQUE DU CANADA

Business Outlook Survey

Conducted by the Bank's Regional Offices | Results of the Summer 2013 Survey | Vol. 10.2 | 8 July 2013

Overview

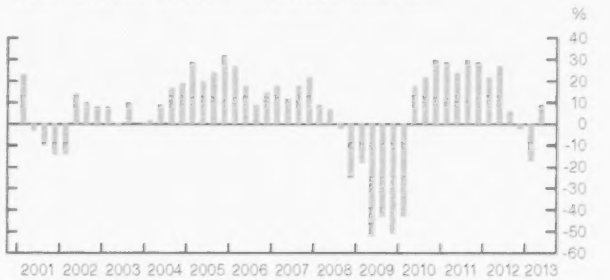
- Responses to the summer survey provide further indications that uncertainty regarding the nature and timing of a notable improvement in growth prospects is bearing on firms' expectations and investment decisions.
- While businesses reported some firming in past sales activity, they do not foresee a marked change in the pace of their sales growth over the next 12 months. Firms generally report a targeted approach to increases in investment over the near term, and often cite plans to use modest hiring to meet any additional operational needs.
- The indicator of capacity pressures has moved up, as some firms rely more heavily on existing capacity in the short term while awaiting signs of strengthening demand. Labour shortages remain subdued. Expectations for input cost pressures suggest little change, and while the balance of opinion on output prices is slightly positive, inflation expectations eased further within the Bank's inflation-control range.
- Credit conditions are essentially unchanged.

Business Activity

The balance of opinion on past sales has turned modestly positive, as businesses report some firming in sales growth over the past 12 months after reporting that growth had slowed or declined in the spring survey (Chart 1). The balance of opinion on future sales is also modestly positive (Chart 2), pointing to some improvement in sales growth over the next 12 months.

Chart 1: Firms have seen some improvement in sales growth over the past 12 months...

Balance of opinion[a]
Over the past 12 months, did your firm's sales volume increase at a greater, lesser or the same rate as over the previous 12 months?

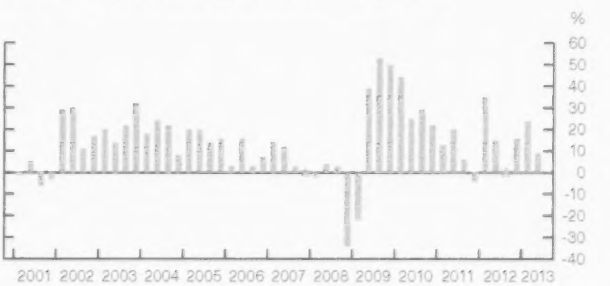


Greater: 42% Same: 24% Lesser: 33% No response: 1%

a. Percentage of firms reporting faster growth minus the percentage reporting slower growth

Chart 2: ...and expect only modest improvement in sales growth over the next 12 months

Balance of opinion[a]
Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 42% Same: 24% Lesser: 33% No response: 1%

a. Percentage of firms expecting faster growth minus the percentage expecting slower growth
* Indicates a balance of opinion of zero

The *Business Outlook Survey* summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Additional information on the survey and its content is available on the Bank of Canada's website. The Summer 2013 survey was conducted from 21 May to 13 June 2013. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

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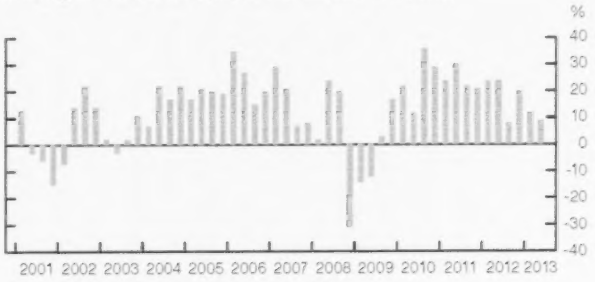
Nonetheless, expectations regarding the economic outlook remain muted. Firms continue to express concerns about the prospects for domestic demand. While many firms note that gradually improving U.S. demand bodes well for their sales outlook, they generally expect U.S. growth to be slow over the next 12 months and competitive conditions in the U.S. market to remain intense.

Businesses expect to increase their investment in machinery and equipment over the next 12 months, although the balance of opinion is marginally lower than in the previous survey (**Chart 3**). Many firms continued to indicate that economic uncertainty has caused them to delay some current or future projects, or to manage risks by targeting new or different segments of demand or choosing investments with smaller capital outlays.

The balance of opinion on employment intentions is positive and, though little changed from the spring survey, it has gradually increased since the autumn 2012 survey (**Chart 4**). A number of firms noted that, given their expectations about demand, they expect to make only minor changes to their workforces over the next 12 months.

Chart 3: The balance of opinion on investment is little changed but has edged down slightly...

Balance of opinion[a]
Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower or the same as over the past 12 months?

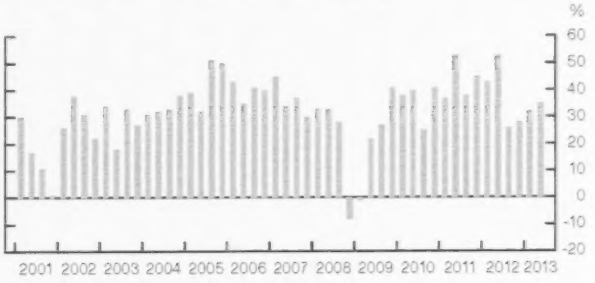


Higher: 35% Same: 39% Lower: 26%

a. Percentage of firms expecting higher investment minus the percentage expecting lower investment

Chart 4: ...while intentions to increase employment have edged up

Balance of opinion[a]
Over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the past 12 months?



Higher: 44% Same: 47% Lower: 9%

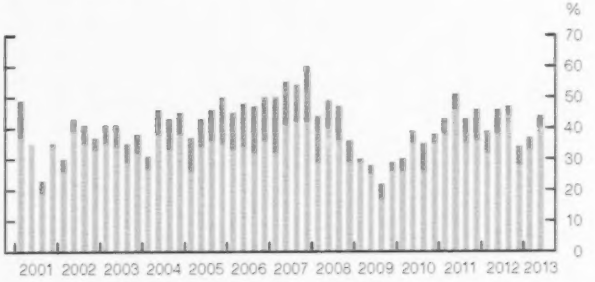
a. Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Pressures on Production Capacity

Capacity pressures moved up in the summer survey, owing to a modest increase in the number of firms indicating that they would face "some difficulty" in meeting an unexpected increase in demand (**Chart 5**). This increase follows a period in which a number of firms indicated that they were choosing to utilize existing capital more intensively over the near term and delay some expansion projects, owing to uncertainty regarding the timing of a strengthening in the outlook for growth. Reports of capacity pressures were concentrated in the goods sector.

Chart 5: Capacity pressures are modestly higher...

How would you rate the current ability of your firm to meet an unexpected increase in demand?

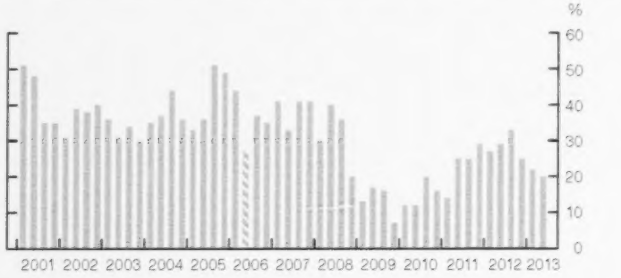


Significant difficulty: 4% Some difficulty: 40%

The percentage of firms reporting that labour shortages are restricting their ability to meet demand is little changed from the spring survey, but it has gradually edged down over recent surveys (**Chart 6**).

Chart 6: ...yet labour shortages remain subdued

Does your firm face any shortages of labour that restrict your ability to meet demand?



Yes: 20%

\\\ The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

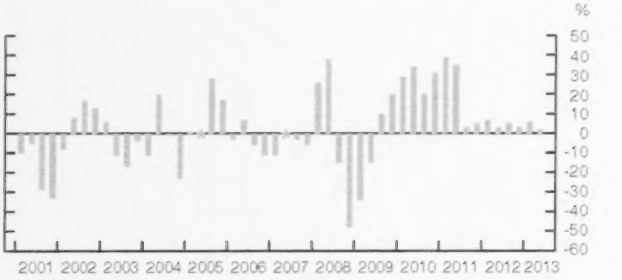
Prices and Inflation

For the eighth consecutive quarter, the balance of opinion on input prices remains near zero, indicating that firms foresee little change in the rate of input price inflation over the next 12 months (**Chart 7**).

Chart 7: Firms expect input prices to increase at about the same rate over the next 12 months...

Balance of opinion[a]

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser or the same rate as over the past 12 months?



Greater: 26% Same: 49% Lesser: 24% No response: 1%

a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

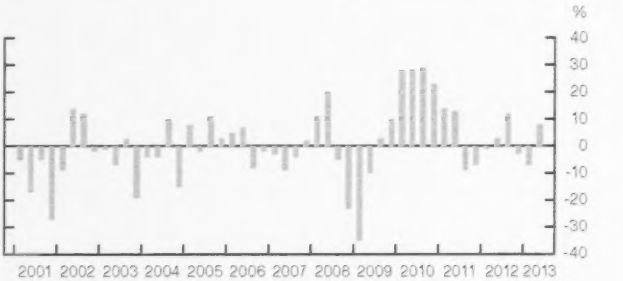
* Indicates a balance of opinion of zero

The balance of opinion on output prices became modestly positive, owing in part to efforts by some firms to try to improve profit margins (**Chart 8**). Nonetheless, for many firms, tepid demand and tough competition continue to restrain the pace of increases in output prices.

Chart 8: ...and output prices to increase at a greater rate, in part owing to some firms' efforts to improve profit margins

Balance of opinion[a]

Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser or the same rate as over the past 12 months?



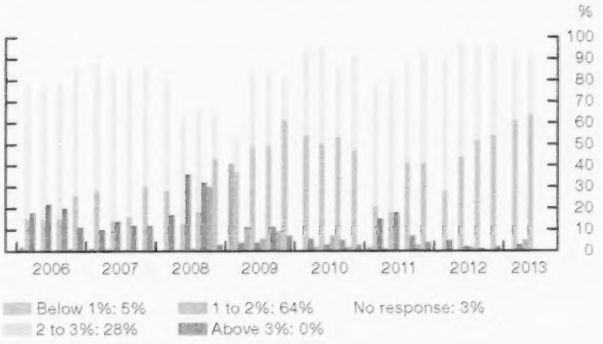
Greater: 31% Same: 46% Lesser: 23%

a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Inflation expectations eased further in the summer survey (**Chart 9**). While the vast majority of firms continue to expect inflation to be within the Bank's 1 to 3 per cent inflation-control range, the percentage of firms expecting inflation to be in the bottom half of that range has gradually edged up over recent surveys. A number of firms cited the current lack of inflationary pressures and the slow-growth environment as factors driving their expectations.

Chart 9: Inflation expectations remain concentrated within the Bank's inflation-control range

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?



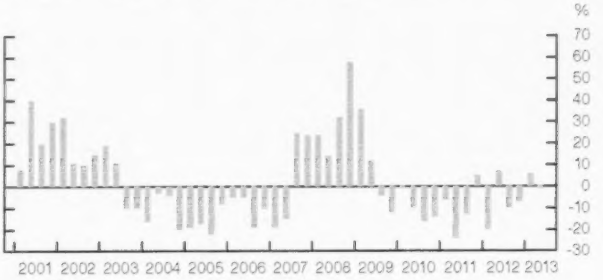
Credit Conditions

The balance of opinion on credit conditions is essentially zero and indicates no change in credit conditions over the past three months (**Chart 10**). Firms citing easier credit conditions were typically large firms.

Chart 10: Credit conditions were little changed over the past three months

Balance of opinion[a]

Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



Tightened: 13% Not changed: 73% Eased: 14%

a. Percentage of firms reporting tightened minus the percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

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